

# **THE ROMANIAN STANDARD OF LIVING AND THE ECONOMIC CRISIS**

**Lecturer Raluca Zorzoliu**

**Ph. D**

**Spiru Haret University**

**Faculty of Marketing and International Business**

**Bucharest, Romania**

**Abstract:** : It is quite obvious that the purchasing power of the population in 2009 will be seriously affected. The daily consumption calculated by the National Statistics Institute is made up to 37.7% by food, beverages and cigarettes, and any rise in the price of them will have direct effects on the living standards. Gross wage in March 2009 was 446 euros, down from 470 euro, level registered in 2008. If in 2008 employees have received salary increases in terms of economic record growth in 2009 the situation has changed radically, most companies announcing the freezing of salaries. Revenues of the private sector were reduced and even stagnant. The inflation rate in April of 6.45% puts Romania in first place among European Union countries as regards the negative developments of the economy. Although desirable for wages is to keep pace with rising prices, the depreciation rate against the euro led to a decrease in income reported to the European currency. According to a study conducted by Unicef and the World Bank, the number of people living in poverty in our country will reach 1.59 million this year, 370,000 people more than in 2008.

**JEL classification: E24, Q12, Q13**

**Key words: economic crisis, inflation, purchasing power, poverty**

## **1. INTRODUCTION**

Joseph Stiglitz, Nobel Prize for economics owner said in 2009 that the difficult economic situation the United States and Europe Europe is far from over. He emphasized that increasingly more Americans are in a position not being able to repay the mortgage loans. Stiglitz also said that the U.S. deficit will reach a total of 500 billion U.S. dollars and they will not have the means to stimulate the economy. For all the problems facing the United States, there's one cause: the Iraq war about which the economist said recently that it will cost approximately 3.000 billion dollars.

The economic recession deepening in France, Germany, Italy or Spain, registering sharp decreases of gross domestic product. In the Euro Area, the GDP fell by 2.5% in the first quarter. These are results since 1995.

## **2. ABOUT GLOBAL ECONOMIC CRISIS**

For the 16 countries using the euro, it is the fourth consecutive quarter of decline, after the area's economy declined by 0.2% in the second and third quarters of 2008 and 1.6% in fourth quarter past. German economy was one of the most affected. its GDP decreasing with 3.8%, due to lower exports and investment. France also, the

second largest economy in Europe, registered an economic decline by 1.2%, while in Italy GDP it decreased by 2.4%.

GDP reduction in European countries :

1. Slovakia - 5,4%
2. Germany – 3,8%
3. Cehia – 3,4%
4. ROMANIA – 2,6%
5. Italy – 2,4%
6. Hungary – 2,3%
7. Great Britain – 1,9%
8. Spain – 1,8%



The inflation rate recorded in May in the euro area was zero, compared to same period the previous year, so having the lowest level, according to Eurostat data, in mid June 2009. The annual inflation in the EU was 0.7% and Romania had the highest rate: 5.9% in May.

Euro area inflation rate fell to 0 from 0.6% in April. The lowest rates were registered in Ireland, Portugal, Spain and Luxembourg, and the highest in Romania, Lithuania and Latvia. Compared with April 2009, annual inflation decreased in 24 Member States. Centralized situation in the annual rate of inflation, in May, in ascending order, is as follows:

Euro Area

- |                     |                      |
|---------------------|----------------------|
| 1. Ireland: -1,7    | 10. Slovenia: 0,5    |
| 2. Portugal: -1,2   | 11. Greece: 0,7      |
| 3. Spain: -0,9      | 12. Italy: 0,8       |
| 4. Luxembourg: -0,9 | 13. Slovakia: 1,1    |
| 5. France: -0,3     | 14. Netherlands: 1,5 |
| 6. Belgium: -0,2    | 15. Finland: 1,5     |
| 7. Germany: 0       | 16. Malta: 3,4       |
| 8. Austria: 0,1     | Zona Euro: 0         |
| 9. Cyprus: 0,5      |                      |

**Table no. 1 Outside the Euro Area**

Estonia	UE	Cehia	Denmark
0,3	0,7	0,9	1,1
Sweden	Great Britain	Bulgaria	Hungary
1,7	2,3 aprilie	3,0	3,8
Poland	Latvia	Lithuania	Romania
4,2	4,4	4,9	5,9

In the euro area, the components with the highest annual rates of inflation were alcohol and tobacco (3.3%), hotels and restaurants, and various goods and services (2.2% each), while the lowest rates were in transportation (-4.8%) and telecommunications (-1.0%).

### 3. THE WAY THE ECONOMIC CRISIS HAS AFFECTED LIVING STANDARDS IN ROMANIA

Merrill Lynch (Bank of America Securities) has changed her economic prediction for Romania for 2009 and 2010, anticipating a fall of 6.4% of GDP this year, expecting a correction of 2.5% in 2010 comparing to estimates of -3.4% and -3.2% advanced in March.

The decision that led to the prediction change was motivated by tightening fiscal policy required by the IMF. Reducing domestic demand will result in closure of production units or in reducing production level so that Romanians will work less and at the same time, will consume less. Merrill Lynch's conclusions regarding Romania's macroeconomic developments considered a fiscal tightening and slow down of domestic demand.

The perception on living standards has deteriorated, purchasing power has decreased and the number of unemployed is increasing. While people expect to live worse in 2009 they were not fully prepared for the crisis. On the one hand, the intend to borrow is reduced substantially, there is a tendency to reduce and fun activities for a better control of the budget. On the other hand, people do not give up holidays and they are willing to use cars less in favor of public transportation means.

While half the urban adult population believes that will change their buying habits this year, 21.7% intend to switch to cheaper brands, while 24.1% intend to buy usual brand products in small quantities. (Data from a study conducted by the Daedalus Group)

**Table no. 2 Average gross earnings**

Month	oct `08	nov `08	dec `08	jan `08	fev `09	mar `09	avr `09
Value RON	1795	1849	2023	1839	1863	1922	1930

*Source: National Institute of Statistics, Bucharest, June 2009*

As shown, the average gross earnings began to grow in January but failed to reach the level of the last month of 2008. Average gross wage growth over the last three months of 2008 is higher than the increases in the first quarter of this year.

The increase from 2008 comparing to 2007 of the average gross salary was about 24%, Romania is frequently on top among European increases. The crisis determined a change of this situation in 2009, when the National Commission for Prognosis indicated an increase of more than 5.2% and pessimistic assumptions are that GDP in the first quarter of this year was compressed by 6.4% comparing to the one recorded in the same period last year.

The average wage keeps up, in theory, with the raising of food prices. Basically, wage growth has been supported by year-end bonuses, arrived late to the budget. INS data shows that wage increases have exceeded price raises just in a few cases in the last 12 months and the situation is more difficult for the private sector. In the first quarter of 2009, its incomes were stagnant or even decreased.

Considering inflation rate, wages will remain at last year's level and will have less purchasing power. Inflation makes 100 lei from last year to mean 93.55 this year.

Economy net average wage has grown, as The Institute of Statistics shows, in March compared to the same month last year, with 10.2% in real terms in lei (nominal growth minus inflation). If we refer to the euro, wages have depreciated. As rents, house and vehicles prices, credit and imported products are reported by the exchange rate, purchasing power is diminished because of the weak leu.

**Table no. 3 CPI Consumer price index**

Month	oct `08	fev `09	mar `09	avr `09	may `09
CPI Value	101,06	100,88	100,5	100,27	100,01

*Source: National Institute of Statistics, Bucharest, June 2009*

The consumer price index is declining from month to month, earlier this year. The latest statistical data shows that the CPI in May was 100.01 comparing April 2009.

The annual inflation rate announced in April, 6.45%, places Romania in first place among European Union countries regarding the negative developments in the economy. According to Eurostat, Romania recorded an inflation of 1.2% higher than the EU average, followed by Latvia and Lithuania, both by 5.9%.

Compared to the average last year, 3.6827 RON Euro has appreciated by about 17% in the first quarter of this year. Among sectors the heavily affected by European currency's growth there are: citrus fruits, medicines, private rentals, cigarettes, alimentary and non alimentary products, medical services and telephony.

Meat and meat products became more expensive, in 2008, 7.23%, plus there was a price increase of 2.2% in the first quarter of this year. Price raisings can reach tens of percent. For cigarettes, products that have an important share in the consumption basket, the price rose by 13.7% in 2008 and with another 6.9% in the first three months of 2009. Food, beverages and cigarettes represents 37.7% of the consumption basket established by the National Institute of Statistics.

**Table no. 4 Unemployment rate**

Month	Trim. IV 2008	oct `08	fev `09	mar `09	avr `09	may `09
% Value	5,8%	4%	5,3%	5,6%	5,7%	5,8%

*Source: National Institute of Statistics, Bucharest, June 2009*

Unemployment rose during the period February to May 2009, from 5.3% to 5.8% the value recorded in the last quarter of 2008.

The employment rate of working age population (15-64) was 58.3% in the fourth quarter of 2008, and the activity rate of working age population was 62%.

Romania ranks sixth in attracting foreign investors top, many of them taking the decision to postpone investment projects.

In the first quarter of 2009, foreign direct investments were 2.055 billion euros comparing to 3.695 billion euros recorded in the first three months of last year, when the crisis had not yet spoken, down with 44%.

In late February, foreign direct investments were 1.456 billion EUR, down almost 14% comparing to the level recorded in the same period of 2008.

The current account deficit during January-April 2009 was financed entirely by non-residents' direct investment in Romania (over 66 percent during January-April

2008), (which recorded 2.055 billion euros - comparing with 3.695 billion euros in first four months of 2008), according to the data announced by the NBR.

According to a study by UNICEF and the World Bank, the number of people living in poverty in our country will reach 1.59 million this year, with more than 370,000 people comparing to 2008. The BNR governor also said that getting out of the crisis, measured by rising living standard, it will take an year and a half.

Even if wages have increased according to official calculations, the Romanians living standard is declining as wages grew only one segment and the number of poor is growing.

#### **4. ABOUT RURAL POVERTY**

Agrarian economy was and is the main source of livelihood of the rural population, which represents almost half of the population and land is the essential resource on which depends the food supply of the population and it has an important role both as a primary job and as part of capital.

In the early years of transition, rural development policy was mistaken with the agrarian policy and the most important structural change has been land reform. The agricultural land was returned to former owners: two thirds to older farmers and only a small part to rural young families. The land reform has radically changed the organization of agriculture - the old forms of organization for state enterprises found themselves unable to serve large number of dispersed private farmers.

Without the necessary agricultural knowledge and confronted with disadvantage of higher production costs due to the reduced work surface, the new class of farmers switched from traditional to modern production. This way, emerged a dual agriculture, in which the state units and certain agricultural produce for market associations and private farmers for own consumption.

Our country has more than 40% of the population employed in agriculture, while in EU countries, only Greece and Portugal than 10%.

As we increase the number and share of employed population in agriculture, this sector's contribution to added gross value decreased dramatically. Agriculture plays an important role as a source of food security and protection against extreme poverty for those who have no wage or pension income. Own agricultural production contributes 30% to 60% of total household consumption.

Besides agriculture, other alternatives for employment and earnings are underdeveloped in the rural area, the underdevelopment of non-agricultural activities is emphasized by some inadequate department policies.

The drastic reduction of employees number has stopped the rural population access to jobs in the cities, due to a selective process of dismissal, primarily those who had the land. So, the agriculture has played the role of occupational buffer, absorbing excess labor and causing widespread underemployment and low labor productivity.

Short-term agriculture can become an important factor for growth, because of the high percentage of agricultural population.

Much of the rural population is old: one third of rural residents are 50 years or older and one in four residents is 60 years or more. Pensioners represent about 26% of rural population and 41% comes from family households where the family head is retired from work.

The poverty rate for pensioners in rural areas is low because most people relatively old receive a pension from the work performed, either in agriculture or in

other economic sectors, and the elderly were the main beneficiaries of land restitution process in 1991. It had a positive effect on living standards of the elderly and on increasing pensions from time to time.

Pension beneficiaries in agriculture have on average more land than the social security pensioners, they have higher incomes in agriculture and coupons right to farm, leading to a lower poverty rate in this population.

Among the differences that arise between occupational characteristics of poor and wealthier population we note:

- poverty is associated with households with many children, with a high percentage of residents who have no jobs and a few retirees;
- the activity rate of poor households in rural areas is higher than the corresponding wealthier households, where only 50% of adults are working or seeking work, compared with 70% of poor people;
- poor households have less employed members and more farmers or unemployed.

The reduction of wages contributed to low living standards of rural people and traditional agriculture is practiced in the conditions provided only by subsistence households.

## **5. CONCLUSIONS**

- The economic crisis is not over yet and its negative effects make its presence felt more clearly from a month to another;

- Wage growth has exceeded rises in a few cases in the last 12 months and the situation is more difficult for the private sector. In the first quarter of 2009, their incomes were stagnant or even decreased.

- Romania ranks sixth in attracting foreign investors top, many of them taking the decision to postpone investment projects.

- According to a study by UNICEF and the World Bank, the number of people living in poverty in our country will reach 1.59 million this year, with more than 370,000 people comparing to 2008.

- Our country has more than 40% of the population employed in agriculture, while in the EU countries, only Greece and Portugal exceed 10%.

- The problem of rural poverty must be taken seriously, especially because is a problem affecting 47% of the population, according to data published in the carrying out in the 2002 census.

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